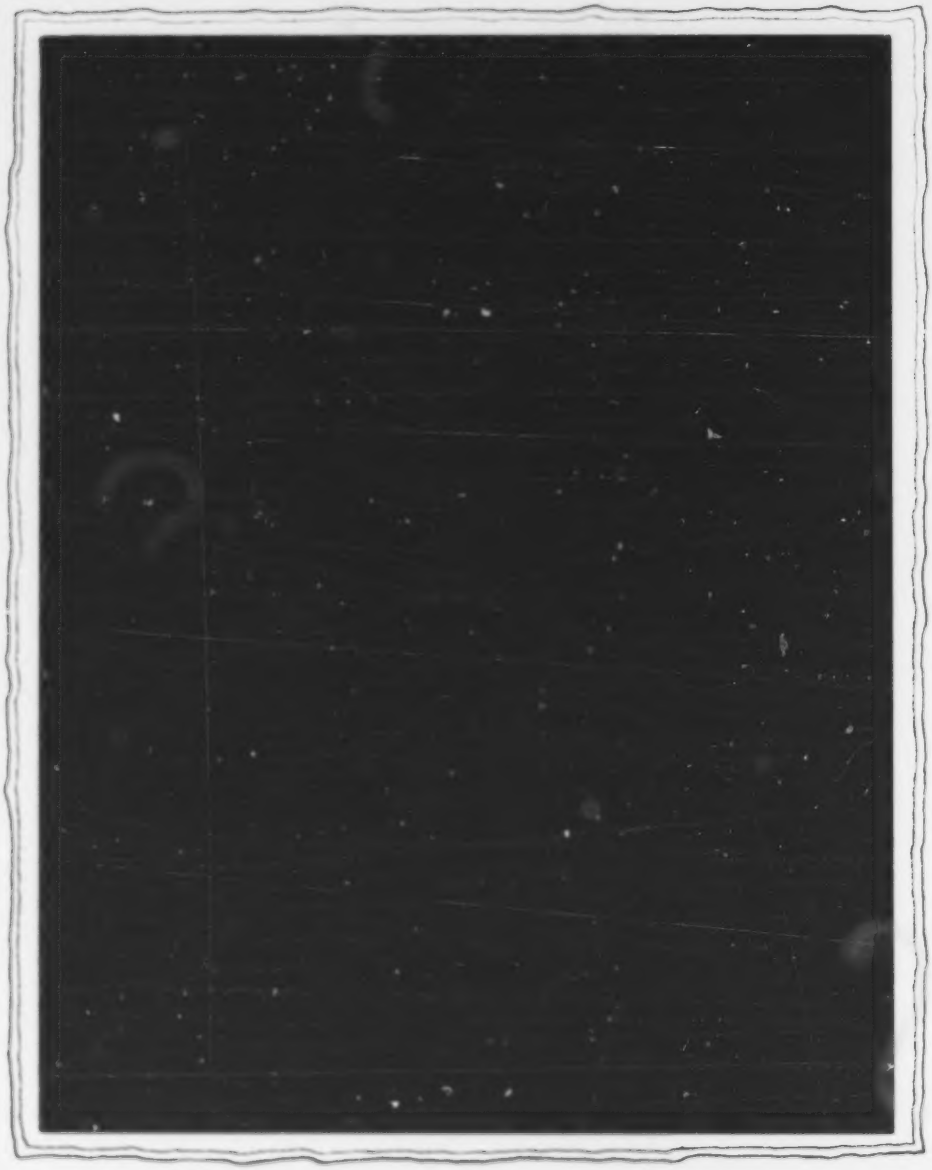
FIFTEENTH ANNUAL REPORT



loto-québec

FIFTEENTH ANNUAL REPORT
1984-1985

Société des loteries et courses du Québec

10 YEARS
TO THE BENEFIT
OF QUEBECERS

January 1, 1985 marked the fifteenth anniversary of the institution of Loto-Québec by the Government of Québec.

Fifteen years to the benefit of all Quebecers

Much more than a mere heading and much more than a slogan, it is the affirmation of a reality based on accomplishments whose standard is constant progress.

In barely fifteen years, thanks to the unwavering support of a steadfast and ever increasing clientèle, Loto-Québec has achieved the stature of a Québec enterprise and institution.

Fifteen years of progress, which have seen Loto-Québec offer its clientèle a varied menu of lotteries and games, suited to everyone's tastes, using the most innovative and reliable methods and techniques available.

Fifteen years of dynamic growth during which hundreds of thousands of winners have profitted from more than two billion dollars in prizes paid out by Loto-Québec.

Fifteen years during which Loto-Québec has turned over to the Québec Treasury more than one and a half billion dollars, reinvested into the economy of the Province through its various Departments and according to governmental priorities.

Loto-Québec is proud, and rightly so, of these accomplishments, which are not due solely to the efforts of its Directors and Managers; these achievements are rather a tribute to the entire population which has helped to make Loto-Québec into a major economic and social force, working for the benefit of all quebecers.

Loto-Québec has already begun to spotlight these fifteen years and will continue to do so, throughout the coming year, with various special events.

We are presenting with this annual financial report, some reminders of past accomplishments to emphasize the significant role played by Québec's lotteries on the economic chess-board.

LOTO-QUÉBEC Sales (in thousands of dollars)

25,797	31,654	45,283	51,981	61,467	64,565	73,385	74,286	60,678	67,330	73,528	77,058	78,476	81,624	73,828
19,982	20,215	24,458	27,576	28,625	29,709	35,375	34,904	28,338	27,721	41,955	45,243	45,028	48,317	43,274
5,655	8,625	11,508	15,107	15,918	21,745	24,877	22,079	38,124	11,487	56,198	49,234	55,552	57,644	49,320
		15,913	30,844	26,172	31,870	49,704	67,519	73,878	87,454	106,958	140,025	139,077	123,858	108,840
							4,109	52,634	88,405	101,478	96,188	100,237	77,354	92,721
									45,763	28,406	41,166	45,538	49,477	45,595
									19,656	24,677	21,287	16,437	16,164	17,815
										3,266	6,293	2,507	—	—
											3,158	366	—	—
												1,570	20	—
												56,623	207,719	309,709
51,434	**60,494**	**97,162**	**125,508**	**132,182**	**147,889**	**183,341**	**202,897**	**253,652**	**347,816**	**436,466**	**479,652**	**541,411**	**662,177**	**741,182**

Loto-Québec

for the fiscal year April 1, 1984 to March 31, 1985

Board of Directors

*Jean-Marc Lafaille
President and Director-General

Denis Vandry
Deputy Director-General and Vice-President, Horse-racing

Marthe Bouchard-Hatch
Reynald Brisson
*Jacques Desmeules, C.A.
Francine Harel-Giasson
*Jean-Claude Messier

Secretary
Marguerite Bourgeois-Lapierre

*Members of the Auditing Committee

Head-Office

Loto-Québec
Sodic Québec Inc.
Lotim Inc.
500 Sherbrooke Street West
Montreal, H3A 3G6
(514) 282-8000

Operations Centres

Laval:
1799 St-Martin Blvd. West
Laval H7S 1N2
(514) 682-2525

Montréal-ouest:
1238 Beaumont Street
Town of Mount Royal H3P 3E3
(514) 735-4133

Montréal-est:
7070 Beaubien Street East
Anjou H1M 1B2
(514) 873-2603

Montréal-sud:
470 Ste-Foy Street
Longueuil J4J 1Y2
(514) 651-9282

Québec:
2200 Charest Blvd. West
Sainte-Foy G1N 2G3
(418) 643-8996

Regional Offices

Trois-Rivières:
5000 Jean XXIII Blvd.
Trois-Rivières Ouest
G8Z 4L1
(819) 373-2633

Sherbrooke:
45 Radisson Street
Sherbrooke J1L 1E2
(819) 566-2161

Chicoutimi:
345 des Saguenéens Street
Chicoutimi G7H 6K9
(418) 545-4522

Rimouski:
92 - 2nd Street West
Rimouski G5L 8B3
(418) 722-3658

Management Committee

President
Vice-President, Corporate Affairs
Vice-President, Horse Racing
Vice-President, New Games
Vice-President, Lotteries

General Management

Director of Public Affairs
Michel Labrosse
Director of Internal Auditing
Jacques Dubois
Director of Corporate Planning and Development
Pierre l'Archevêque

Vice-President, Corporate Affairs

Marguerite Bourgeois-Lapierre
Secretariat
Legal Services
Program and Methods Service
Information Management Service

Vice-President, Horse Racing (Sodic Quebec Inc.)

Denis Vandry

Vice-President, New Games

Roger Bertrand

Vice-President, Lotteries

David Clark

Director, Human and Physical Resources
Jean-Pierre Sylvestre
Director, Finance
Gilles Dubé
Director, Sales and Distribution
Hervé Bellerive
Director, Marketing
Claude Trudel
Director, Computer Systems
Gaston Thibault

President's Report

The mandate of Loto-Québec is to conduct and manage lottery systems and, if so authorized by the government, to hold races and to promote the breeding of race horses. It has as its sole shareholder the Minister of Finance of Québec.

Loto-Québec is managed by a Board of Directors, comprised of seven members. During the past fiscal year, this Board convened on eleven occasions, while the Auditing Committee held three meetings.

The total business volume of the Société increased by nearly 12%, while its net profits rose by more than 13%. Our preceding annual report had forecast a sales progression rate similar to that of the consumer price index and a margin of profit considerably lower than that of 1983-84. These substantial increases are attributable, in great part, to the succes of LOTTO 6/49, particularly during January of 1985, as well as to cost-saving objectives achieved during the past fiscal year.

In the area of market competition, the resounding setback suffered by Sports Select Baseball has forced the federal government to abolish the Canadian Sports Pool Corporation, thereby putting an end to a renewed attempt at intruding into the domain of state lotteries. A federal-provincial accord, recognizing the exclusive jurisdiction of the provinces in this domain, is presently in the negotiating stages.

No new lotteries were introduced during 1984-1985. The sales performance of each product is charted and presented in a comparative table, following the financial statements.

In 1983-84, operating costs had decreased from 12.6% to 10.6% of total sales. This year, there was a further decrease to 10.5% of total sales. The total costs incurred by the Société, prizes not included, represent no more than 18.4% of sales, the lowest figure since the creation of Loto-Québec, in 1970. These results attest unequivocally to the sound management of the Société.

For the first time, a statement of Loto-Québec's consolidated earnings for the past five years is included further in this report.

The comparative review shows that in five years Loto-Québec sales have increased by nearly $305,000,000., an annual average rate of increase of 14%. Prizes have remained stable at 46% of the total business volume, while total expenses have increased at a rate lower than that of sales. During these five years, the corporation's salary mass has dropped from 4.09% to 3.85% of the total amount of sales.

This year, Loto-Québec is celebrating its 15th birthday. The changes in the principal statistics of the Société since its first fiscal year reveal some noteworthy facts: namely that sales are 14 times higher than they were in 1970-1971 and that prizes are 21 times larger than for the same period; these have increased by 54.5%, from 29.9% to 46.2% of the total business volume.

Our operating costs have decreased by 18%, from 22.45% to 18.4% of the total business volume. The nature of these costs has changed considerably, as well. The cost of printing tickets has increased by 33.3%, from 1.8% to 2.4% of the total business volume. The tickets for the Instant Lotteries and the introduction

President's Report

(continued)

of pouch-tickets serve to explain this increase. Computer related expenses, inexistent in 1970-1971, now reach 2.7% of the total business volume; this increase is attributable to the infrastructure required for operating terminal games. However, these games now account for nearly 60% of Loto-Québec's total sales figure. Lastly, depreciation costs have risen from 0.06 to 1.1% of the total business volume, an increase attributable to the sizeable investment in computer equipment for game terminals.

The majority of expenses, however, have diminished. Marketing costs have decreased from 3.5% to 2.2% of the total business volume, a drop of 37.1%, due mainly to a reduction in publicity expenses, which have gone from more than 3% to less than 1.4% of the total business volume. The cost of sales and distribution has decreased by 69%, from 7.5% to 2.3% of the total turnover. As for administration costs, these have decreased by 20%, from 3.1% to 2.5% of the total business volume.

Since 1970, Loto-Québec has channelled more than $1,500,000,000. into the Québec Treasury, nearly two-thirds of which came during the past five years. Furthermore, $46,000,000. were paid to the Federal Government under the terms of a 1979 agreement, while more than $2,000,000,000. were paid out in prizes to winners of the various lotteries.

Custom dictates that an out-going President of an enterprise present a review of the accomplishments achieved during his term. That is what I shall endeavour to do in the remainder of my report.

In 1977, the total business volume of the Société was about $183,000,000.; in 1984-1985, it rose to $741,000,000. This exceptional growth could not have been attained without certain changes in the philosophy and management of the enterprise. Let us review the highlights of this re-organization.

Marketing Approach

In 1977, Loto-Québec did not follow any established marketing plan or management strategy for its lotteries. The creation of a bona-fide Marketing Directorate and the implementation of appropriate marketing strategies based on individual products would lead to the introduction of new lotteries, without neglecting the development and growth of existing ones. The result of such an approach was a considerable increase in the Corporation's total business volume. The quality of our advertising campaigns would also improve, in spite of a notable decrease in publicity costs relative to the total business volume.

Distribution System

The former distribution system, in effect since 1970, was quite vulnerable to patronage and a certain laxness in the sales operations of Loto-Québec. Since 1978, the first year of operations under a more viable, efficient and equitable system of distribution, drawing more fully on the wholesalers and agents of the Société, Loto-Québec succeeded in reducing its distribution costs by $8,000,000. without adversely affecting its total business volume. Thus, the distribution and sales costs have decreased from 7.5% of the 1976-1977 business volume to 2.3% of the 1984-1985 total business volume.

President's Report

(continued)

Computerization of Lottery Games

In 1978, Loto-Québec was the first lottery enterprise in the world to transfer from an "off-line" to a direct, "on-line" system of ticket registration for a loto game. Today, the Société possesses one of the most extensive computerized telecommunications networks in Québec and the largest computer network for lotteries in the world.

Sodic Québec Inc.

The complete re-organization of this Loto-Québec subsidiary, whose mandate is to promote and develop the horse-breeding industry in Québec, has served to enhance governmental participation and aid to that industry. Major administrative reforms and the implementation of a five-year plan of operations, backed by a revival plan, are, to date, the chief accomplishments of Sodic Québec Inc.

Modernization of Human, Financial and Material Resources

In the past, Loto-Québec had been operating under a handbook system of reference, with a somewhat adequate efficiency. Today, for the management of its human, financial and material resources, the Société is endowed with computerized systems whose capacities are equal to the latest technological advances in that field. A new project, aimed at providing our representatives and wholesalers with portable micro-computers, will be put into effect in 1985. Lastly, the implementation of the concept of "participatory management by objectives" as a comprehensive philosophy of administration, constitutes another important achievement in the area of management.

Internal Auditing

The success of any lottery enterprise is quite fragile and depends on its credibility. The creation of an internal auditing body assumes, therefore, a particular relevance. This service, inexistent in 1977, has become an important element in the sound management of our operations. Its Director has even been recently accorded international recognition.

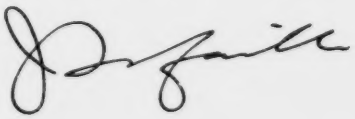
Corporate Planning

The establishment of corporate planning units for research and development has allowed the Société to remain at the forefront of development of games of chance. A three-year corporate planning system is now in effect and various reports are periodically submitted to the government for its consideration. We call to mind the Fortuna Report, which dealt with games of chance in Québec, as a whole, as well as the report on video lottery games.

As a mark of recognition for its competence, Loto-Québec has received, and continues to receive, many delegations from other state lotteries, seeking out the Société's expertise in the management of lotteries. These visitors have come from many countries, including Australia, Belgium, the Cameroons, France, Israel, Japan, Morocco, Mexico, Senegal, Spain, Sweden, Switzerland, the United States and Zaire; they have come, some on several occasions, to learn about our management methods and to request our assistance in the management of their own lotteries. This international recognition assumed more tangible proportions with my appointment, in 1982, to the post of Secretary-General of the A.I.L.E., an international body whose members represent ninety-one lottery organizations from more than sixty countries.

All of these accomplishments could not have been realized without the energetic contributions of the Société's entire staff and the support of its Board of Directors. And so, in presenting my last report, I take this opportunity to congratulate and thank them for our success.

Jean-Marc Lafaille



President

Salient Facts

General Management

Three Directorates continue to report directly to the President.

The main activities of the Public Affairs Directorate revolve around the national and international affairs of the Société. This Directorate has been entrusted with the administration of the Secretariat-General for the International Association of State Lotteries, which has its Head Office at Loto-Québec. It has also served as liaison for the parties involved in the federal-provincial sport pools conflict. This Directorate also organized the Canadian Conference on Games of Chance, held in Québec City and has co-ordinated the visits of numerous foreign delegations who have come to study the management systems employed by the Société.

In addition, the Directorate has engineered several projects relating to the Corporate image of the Société, including an audio-visual film presentation and several conferences organized abroad.

The Internal Auditing Directorate, in close collaboration with the President, continued in its role at the highest levels of the Société.

The Corporate Planning and Development Directorate continued its re-organization by developing and defining the roles and functions of the Planning Service, to which are now added Research functions, and by elaborating more fully on these different projects of organizational development.

The Planning and Research Service has established a planning process — strategic, tactical and operational — which will serve as the basis for a three-year plan extending from 1986 to 1989. The Reaserch Division dealt mainly with the conduct of various studies on market opportunities and with the up-dating of the Fortuna Report on games of chance and money in Québec.

The Service of organizational and professional development has placed great emphasis on programs of professional development for all levels of management at Loto-Québec. These included Professional Corporate days, training sessions in Planning — Organization — Control (P.O.C.), leadership seminars and sessions in the proper conduct of meetings. It has also undertaken several corporate projects dealing with stress in the workplace, the status of women, the implementation and up-dating of the D.P.O., as well as the training of managerial personnel in the policies and procedures of MANOP — MANORG. Lastly, this Service has established an evaluation program for all Loto-Québec professionals involved in management.

Vice-presidency, Corporate Affairs.

The Vice-presidency for Corporate Affairs has experienced a year of extensive organization and growth, having developed methods of operation and evaluation designed to maximize the quality of services offered to its operational units.

The Legal Services Department was re-organized to improve its efficiency in commercial matters of litigation. It has also proceeded with the standardization in the drafting of internal procedures. The quality of legal research has been vastly improved so as to enhance Loto-Québec's expertise in legal matters relating to games of chance and money.

As for the Service of Programs and Methods, its functions were divided into four sectors: quality control, organization and methods, program evaluation and risk-management. This partition of functions has led to specific projects designed to provide a better support system for managers, while allowing the Directorate to monitor and control the various programs of the Société.

The Service of Information Management has conducted studies on the implementation of information management systems at Loto-Québec. In the area of management of documentation, the Service is on the verge of completing its plan for the standardization of filing procedures for the Société as a whole. As of today, the Documentation Center is equipped with a computerized reference system for entering and retrieving bibliographical data, as well as with an access system to external data-banks.

The expansion and integration of support services for the Boards of Directors of Loto-Québec and its affiliates continued to take their course.

Lotim Inc., the subsidiary charged with managing Loto-Québec's interests in its Head Office at 500 Sherbrooke Street West, spared no effort in its rental activities for the building, in order to generate the expected rate of return on this investment.

Salient Facts

Vice-presidency, New Games

The Vice-presidency for New games has completed its dossier on video lottery parlors and has submitted its final report to the government; this report could prove very decisive in the coming fiscal year.

This Vice-presidency is pursuing its studies on games of potential interest to consumers and is examining other dossiers which may also have an influence on the activities of Loto-Québec, such as methods of product distribution and the sale of its management expertise to foreign markets.

Vice-presidency, Horse racing

SODIC QUÉBEC INC.

In April of 1984, at Montebello, SODIC QUEBEC Inc. conducted a FORUM on the future of racing in Québec. At that time, it was decided to create an "Industry Board" whose first task was to prepare, over the summer and autumn of 1984, a study on the status of the racing industry and the required corrective measures.

However, the ensuing recommendations of the Industry Board did not reach political quarters until the end of January 1985. After analysing the report at the Finance Minister's request, SODIC relayed its own recommendations to the government, in March of 1985. These recommendations were ratified by the Advisory Committee of SODIC, with some adaptations to reflect a wider concensus on the most effective means for rectifying a disquieting situation: namely, the general public's continuing disaffection for the product called "Horse Racing". These reports may very well pave the way for important decisions during the coming fiscal year.

At the same time, SODIC has continued its efforts to convince Industry groups of the necessity for radical modification of the characteristics of the product being offered to the consumer, particularly as they relate to the physical betting environment, as well as of the need for greater diversity in the event itself.

Vice-presidency, Lotteries

The Vice-presidency for Lotteries has experienced its first complete fiscal year since the administrative restructuring of the Société. Henceforth, five Directorates form the nucleus group responsible for the management of lotteries, providing our clientèle with first-rate products and services, while continuing to maximize revenues for the Société.

The balance sheet for the year under review attests to the accomplishments of this Vice-presidency, particularly in the area of semi-active games. Once again, the results have exceeded all forecasts and objectives.

The following financial statements and the reports on the principal activities of each Directorate dealing with lotteries, testify to the imagination and abilities of this Vice-presidency.

Directors' Report

The Board of Directors is responsible for the consolidated financial statements to the Shareholder. The responsibility for preparing them is delegated to General Management, while the Auditing Committee sees to revisions.

Management maintains a system of internal control in order to present reliable financial statements. The internal auditing Service constantly oversees the smooth functioning of the system.

The consolidated financial statements are prepared according to generally accepted accounting principles, which, in certain cases, call for estimations and judgments on the part of management.

By law, the Auditor-General of Québec is appointed as the auditor of the books and accounts of the Société. This report expresses an opinion on the consolidated financial statements in a comprehensive manner and according to their compliance with generally accepted accounting principles.

The Auditing Committee and the Auditor-General meet with management to discuss questions pertaining to auditing and to consolidated financial statements. The members of the Committee are not connected with the Société, except as administrators.

Upon recommendation of the Auditing Committee, the Board of Directors has approved the financial statements of the Société, for the fiscal year ended March 31, 1985.

Jean-Marc Lafaille

Jacques Desmeules

Auditor's Report

I have examined the consolidated balance sheet of Loto-Québec as at March 31, 1985, the statement of consolidated revenues, undistributed income, and changes in the financial position for the year ended at that date. My examination was carried out according to generally accepted accounting standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial consolidated statements present fairly the financial situation of Loto-Québec as at March 31, 1985, and in like manner the changes in the financial situation for the period then ended at this date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhéal Chatelain, F.C.A.
Auditor-General of Québec

Québec, May the 17th, 1985

Consolidated Balance Sheet

as at March 31, 1985

Loto-Québec
(L.R.Q. c. S-13.1)

	(in thousands of dollars) 1985	1984
ASSETS		
CURRENT		
Cash	24,427	11,065
Advance to Subsidiary Lotim Inc. (Note 3)	1,047	1,253
Receivables (Note 4)	9,962	11,466
Prepaid expenses	4,180	3,734
	39,616	27,518
INVESTMENT		
Wholly-owned Subsidiary (Note 5)	—	—
FIXED ASSETS (Note 6)	47,306	51,047
HOLDINGS UNDER LEASE-PURCHASE CONTRACTS (Note 7)	3,623	4,470
	90,545	83,035
LIABILITIES		
CURRENT		
Prizes payable	7,754	7,156
Accounts payable and accrued liabilities	20,801	24,260
Provision for bonus prizes (Note 8)	2,170	3,430
Deferred income — Lottery tickets	14,431	14,665
	45,156	49,511
LIABILITIES UNDER LEASE-PURCHASE CONTRACTS (Note 7)	3,289	4,343
SHAREHOLDER'S EQUITY		
Capital shares authorized, issued and paid: 1,700 shares with a par value of $100.00 each	170	170
Retained earnings	41,930	29,011
	42,100	29,181
	90,545	83,035

LEASES (Note 12)
CONTINGENCY (Note 13)

On behalf of the Board of Directors

Jean-Marc Lafaille
Jacques Desmeules

Consolidated Statement of Retained Earnings

for the year ended March 31, 1985

	(in thousands of dollars) 1985	1984
Balance at beginning of year	29,011	10,891
Net income for the year	252,919	223,120
	281,930	234,011
Dividend paid to the Minister of Finance	240,000	205,000
Balance at end of year	41,930	29,011

Consolidated Statement of Changes in Financial Position

for the year ended March 31, 1985

	(in thousands of dollars) 1985	1984
SOURCE OF FUNDS		
Net income	252,919	223,120
Depreciation of fixed assets	8,256	8,318
Funds provided by operations	261,175	231,438
Proceeds from disposal of fixed assets	—	5,472
Obligations accruing from lease-purchase contracts	—	4,343
	261,175	241,253
APPLICATION OF FUNDS		
Dividend paid to the Minister of Finance	240,000	205,000
Acquisition of fixed assets	3,607	42,796
Acquisition of assets pursuant to lease-purchase contracts	61	5,587
Reduction of obligations accruing from lease-purchase contracts	1,054	—
	244,722	253,383
CURRENT LIABILITIES OVER CURRENT ASSETS		
Increase (reduction) during the period	(16,453)	12,130
Balance at beginning of year	21,993	9,863
Balance at end of year	5,540	21,993

Consolidated Statement of Earnings

for the year ended March 31, 1985

	(in thousands of dollars) 1985	1984
SALES — Lottery tickets	741,102	662,177
COST OF SALES		
Prizes paid	342,086	304,682
Discounts to retailers	40,973	37,518
Printing of tickets	17,454	17,306
	400,513	359,506
GROSS INCOME	340,589	302,671
OPERATING EXPENSES		
Advertising and communications	16,079	15,020
Distribution and sales	16,759	16,867
Data processing	19,954	16,635
Administration	18,884	14,327
Depreciation of fixed assets	8,256	8,318
	79,932	71,167
Income from interest — net (Note 9)	2,131	1,276
	77,801	69,891
INCOME BEFORE EXTRAORDINARY ITEMS	262,788	232,780
Payments to the Government of Canada further to its withdrawal from the conduct of lotteries (Note 10)	9,468	9,217
Special commissions to non-profit organizations (Note 11)	401	443
	9,869	9,660
NET INCOME	252,919	223,120

Accompanying Notes

March 31, 1985

1 STATUTE AND FUNCTIONS

La Société des loteries et courses du Québec, also designated as Loto-Québec, is a provincial crown corporation all of whose shares are held by the Government of Québec. According to its enabling Act, its function is to conduct and manage lottery systems.

2 SUMMARY OF MAIN ACCOUNTING POLICIES

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with generally accepted accounting principles, within the reasonable limits of their relative importance and within the framework of the following accounting principles:

Consolidation

The consolidated financial statements group the accounts of Loto-Québec with those of Lotim Inc., its wholly-owned subsidiary as at December 31, 1984.

Regarding the participation of Loto-Québec in S.O.D.I.C. Québec Inc., a wholly-owned subsidiary, it is carried at cost, since it is unlikely that the increase in the net assets of this subsidiary will effectively accrue to Loto-Québec.

Fixed Assets

Fixed assets are presented at their original cost and are depreciated according to their estimated useful life, using the following straight-line method rates:

*Building	2%
Office Furniture	10%
Equipment	20% and 12½%
Improvements to rental holdings	20% and 10%
Rolling Stock	30%

*In joint tenancy with Immeubles Cadimont Inc.

Holdings under lease-purchase contracts

The assets carried on the books under lease-purchase contracts are stated at cost of acquisition and are depreciated according to the straight-line method. The obligations arising from these agreements are entered at the minimum current value of payments to be made.

Income

Gross income from the sale of lottery tickets is recorded as of the date of the draw, with the exception of income originating from instant lotteries, which is entered at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date — except for instant lotteries — are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

Prizes paid

In addition to cash prizes, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the price of sale and is entered under sales as income and under prizes paid as expenses.

3 ADVANCE TO SUBSIDIARY — LOTIM INC.

An advance made to this wholly-owned subsidiary from January 1985 to March 31, 1985; (in 1984: from January 1984 to March 31, 1984)

4 RECEIVABLES

	1985	1984
	(000$)	(000$)
Retailers	3,778	3,851
Wholesalers	4,383	3,959
Interprovincial Lottery Corporation	1,447	2,755
Miscellaneous	354	901
	9,962	11,466

Accompanying Notes

(continued)

Loto-Québec holds demand notes or acknowledgements of debt covering permanent advances to wholesalers, as well as bank guarantees covering these advances in whole or in part.

5 INVESTMENT

At March 31, 1985, Loto-Québec held all the capital shares of S.O.D.I.C. Québec Inc.; that is, one common share at a par value of $10.00. The audited financial statements of S.O.D.I.C. Québec Inc. show a book-value of $1,912,866 as at March 31, 1985 ($2,345,240 as at March 31, 1984).

6 FIXED ASSETS

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	(000$)	(000$)	(000$)	(000$)
*Land	2,500	—	2,500	2,500
*Building	15,605	464	15,141	15,301
Leasehold improvements and outfitting	6,880	1,357	5,523	5,467
Equipment	45,871	24,195	21,676	25,804
Office furniture and rolling stock	3,772	1,306	2,466	1,975
	74,628	27,322	47,306	51,047

*In joint tenancy with Immeubles Cadimont Inc.

7 HOLDINGS UNDER LEASE-PURCHASE CONTRACTS

	1985			1984
	Cost	Accumulated depreciation	Net	Net
	(000$)	(000$)	(000$)	(000$)
Data-processing equipment	5,649	2,026	3,623	4,470

The following table specifies the minimum payments to be made after March 31, 1985 in pursuance of all obligations resulting from lease-purchase contracts, as well as the current value of obligations ascribed thereto:

		1985	1984
Fiscal Year		(000$)	(000$)
1985 to 1988	($1,699 × 3 years)	5,097	—
	($1,684 × 4 years)	—	6,736
1989		483	322
1990		45	—
Total minimum payments		5,625	7,058
Less: Interest calculated at 17½%		1,325	1,821
		4,300	5,237
Less: Short-term payments		1,011	894
Obligations ascribed to lease-purchase contracts		3,289	4,343

8 ALLOWANCE FOR BONUS PRIZES

Unclaimed prizes in the Mini Loto and Inter Loto are entered under a provision for their subsequent distribution as bonus prizes.

9 INTEREST INCOME — NET

	1985	1984
	(000$)	(000$)
Interest on bank deposit	2,895	2,288
Less: Interest arising from lease-purchase obligations	764	1,012
	2,131	1,276

Accompanying Notes

(continued)

10 PAYMENTS TO THE GOVERNMENT OF CANADA FURTHER TO ITS WITHDRAWAL FROM THE CONDUCT OF LOTTERIES

Under an agreement between the provincial governments and the federal government concerning the latter's withdrawal from the conduct of lotteries, the provinces annually remit to the federal government the sum of 24 million dollars, in 1979 dollars. The government of Québec's share is payable by Loto-Québec according to an agreement concluded between the provinces and the regional lottery corporations. Loto-Québec will turn over approximately 10 million dollars as its contribution for the 1985-86 fiscal year.

11 SPECIAL COMMISSIONS TO NON-PROFIT ORGANIZATIONS

Further to a decision by the Société's sole share-holder, a commission equal to the discount offered to retailers is granted to non-profit organizations engaged in the selling of lottery tickets through the "LOTOMATIQUE" subscription system.

12 LEASE OBLIGATIONS

Long-term office-space leases will be expiring at various intervals until December 1989. These leases carry an option for renewal after five years.

Rental expenditures for the year ended March 31, 1985 have increased to $2,979,451.

Minimum annual rental payments for the next five fiscal years are as follows:

	(000$)
1985-86	4,061
1986-87	4,061
1987-88	3,885
1988-89	1,254
1989-90	209

13 CONTINGENCY

A readjustment clause is contained in the contract pertaining to the purchase of the building in joint tenancy by Lotim Inc., Loto-Québec's wholly-owned subsidiary. Under the terms of this clause, the purchase price may be increased by an amount not exceeding $7,000,000, up to a total purchase price of $42,000,000, plus one-third of any amount exceeding $45,00,000. In such an eventuality, Lotim Inc. will be obligated to assume 50% of this increase; as at March 31, 1985, the eventually liability that might result therefrom had not been determined. However, management is of the opinion that it is unlikely the Société will have to incur such a liability.

Commercial Highlights

Sales

Total sales of the Société have risen to $741.1 million, an increase of $79 million over sales for the preceding fiscal year.

The following table outlines the performance of each product. Free tickets have been entered as an accounting item, a standard procedure in the field of lotteries.

Sales by product
(in thousands of dollars)

	1984/85	1983/84	Évolution
Passive Lotteries			%
Mini Loto	73,828	81,624	(9.6)
Inter Loto	43,274	48,317	(10.4)
Provincial	45,595	49,477	(7.8)
Super Loto	49,320	57,644	(14.4)
Sub-total	212,017	237,062	(10.6)
Semi-Active Lotteries			
6/36	108,840	123,858	(12.1)
La Quotidienne	17,815	16,164	10.2
LOTTO 6/49	309,709	207,719	49.1
Instant Lotteries	92,721	77,354	19.9
Hockey-Sélect		20	(100.0)
Sub-total	529,085	425,115	24.5
TOTAL	**741,102**	**662,177**	**11.9**

Prizes

In keeping with standard procedure, Loto-Québec pays out a guaranteed rate of return in prizes proportional to sales from its conventional lotteries: 42.5% for the Mini Loto, 41.5% for the Inter Loto and 45% each for the Provincial and Super Loto. The unclaimed prizes from these lotteries are ultimately returned to consumers in the form of bonus prizes.

Since "on-line" terminal games do not entail any unsold tickets, Loto-Québec guarantees a percentage of return equivalent, in principle, to the amount of prizes to be claimed. The theoretical rate of return is 48% for the 6/36, 45% for the LOTTO 6/49 and 49% for La Quotidienne.

The rate of return in prizes for instant lotteries may vary slightly from one type of game to another. Loto-Québec generally sets the rate at between 48% and 50%. Free tickets are entered on the books under prizes paid.

Vendors of tickets that win prizes of $1,000.00 or more are awarded bonuses amounting to 1% of the prizes paid out to winners.

Prizes Paid
(in thousands of dollars)

	1984/85	1983/84
Mini Loto	31,377	34,690
Inter Loto	17,958	20,051
Provincial	20,572	22,352
Super Loto	27,252	32,123
6/36	51,143	58,040
La Quotidienne	8,101	6,900
Loto-Sélect	—	(19)
Instant Lotteries	45,878	37,364
LOTTO 6/49	139,805	93,184
Hockey-Sélect	—	(3)
TOTAL	**342,086**	**304,682**

Commercial Highlights Highlights

Product performances

During the year under review, Loto-Québec's products have reached a sales level of 741.1 million dollars.

The group of terminal-games accounted for 59% of the total sales figure.

LOTTO 6/49, with receipts of 309.7 million dollars, has remained the most popular game.

The **6/36** was able to hold on to its share of the market throughout the year under review.

Last September's inauguration of the "Mise-Éclair" proved to be a success: approximately 25% of all consumers use this fast method of wagering on the LOTTO 6/49 and the 6/36.

By offering a variety of game options, **La Quotidienne** has continued to attract those consumers who wish to play a daily lottery.

The **Mini Loto** and **Inter Loto** have maintained their position in the market, still enjoying great popularity with a steadfast clientele.

The **Provincial**, a one-of-a-kind lottery which allows for participation in five consecutive weekly draws, achieved record sales with its offers or bonus prizes.

The **Super Loto** accounted for nearly 49.3 million dollars in sales. The promotional offer of 1,000 cars as bonus prizes proved to be very popular with consumers.

Seven instant lotteries were marked during the past fiscal year, with two of the games being at the price of $2.00. This double offer met with resounding success, accounting for nearly 30 million tickets sold. This format will be repeated for the next fiscal year.

Marketing

The Marketing Directorate has experienced an increasingly active year.

The agencies of BCP Ltd. and Léveillé, Benton & Bowles Inc. continued to serve in their advertising capacities: the number of publicity campaigns was increased in order to accommodate the new instant lotteries. The directorate has also retained the services of the firm Cossette-Communication Marketing, as a media control agency.

The directorate is continuing its sponsorship program of festivals promoting Québec resources; at the same time, it has redirected its foot-races sponsorship program integrating it with the Mini Loto.

The telecasts of the draws were rejuvenated by the addition of new sets, while the telecasts for La Quotidienne and Super Loto draws were awarded to the Radio-Québec network.

Lastly, the Information services provided a regular distribution of all lottery results, in addition to offering consumers several publications pertaining to the lotteries and activities of Loto-Québec.

Highlights

Sales and Distribution

In the past year, the Sales and Distribution directorate has once again amply surpassed its objectives.

The first few months of the year were marked by the return of the Federal Government to the business of lotteries. However, an extremely swift reaction by the regional offices, in collaboration with retailers equipped with terminals, was instrumental in blocking the new competitor's access to some 4,000 of the best sale outlets in Québec. Thanks to a persuasive and concerted effort, this department was able to integrate all retailers equipped with terminals into a system of preauthorized deductions, thereby allowing Loto-Québec to collect sale revenues directly from the retailer's account.

With the relocation of the Montreal West Office to new premises in the Town of Mount Royal and the opening of a Montreal East Office in Anjou, the re-organization of operation centres was completed.

Services provided to retailers, a very important facet of our operations, were improved and kept up even during the Christmas Holidays, as well as throughout the weeks of the spectacular jackpot accumulation of LOTTO 6/49.

Certain operational changes have allowed a reduction of personnel in the area of supervision of operation centres, increasing the actual time devoted to sales. Elsewhere, several improvements have assured the consolidation of the network of wholesalers, much to the satisfaction of the latter.

In the area of human resources, the accent was placed on training programs for managerial personnel. Consequently, after an evaluation of their potential, these cadres were able to benefit from intensive training sessions covering various facets of management.

Lotomatique

Sales from Lotomatique, Loto-Québec's subscription system for lotteries, have increased by 17.9% over the preceding fiscal year.

39 new Associations were accredited, bringing the system's total to 273 organizations, as at March 31, 1985. Total sales from this source reached $8,602,823.

Moreover, these organizations realized some $430,000 in discounts and bonuses from Loto-Québec and approximately $401,000 in government contributions.

Information Processing

The directorate of Information Processing has effected a revision of the systems for computerized game terminals, increasing their capacity by 100%; it carried out the basic modifications necessary for the launching of the "Mise-Éclair" option in the 6/36 and LOTTO 6/49; it has increased the number of terminals from 3,400 to 4,000 and negotiated a maintenance contract for these terminals, thereby realizing considerable savings; in collaboration with the service for prize disbursements, it has implemented a computerized system which provides an even tighter control of that sector.

For its internal operations, the directorate has secured a micro-computers supplier, which will be made available to our representatives and agents. Following and in-depth study, the pay-roll system was improved, while the computerization of the Accounts Payable system, carried out with the collaboration of that department, has given Loto-Québec a more adequate access to information concerning financial resources of the Société.

The directorate has also elaborated a project for office automation and for the implementation of measuring devices to determine the rate of equipment utilization.

Lastly, it has revised its triennial plan of operations, filling certain key positions and securing an extended service contract in the area of operational software.

Highlights

Finance

There were two very significant improvements instituted by this directorate: the first dealt with the computerization of the system for prize disbursements, resulting in a closer interdependence between product management and the drawing of prizes; the second dealt with the computerization of the control systems for fixed assets.

Elsewhere, the implementation of a system for pre-authorized deductions, carried out in conjunction with the sales directorate, was very instrumental in reducing the collection time of sale receipts by two and a half days, with the corresponding acceleration in the recording of revenues.

The directorate was also able to computerize the MSA system for supplier-invoicing, thereby accelerating the procedures for issuing cheques.

Lastly, and in collaboration with other departments involved, the finance directorate reviewed existing security measures for lottery draws. As a result, the most stringent security measures ever will be implemented from the outset of the next fiscal year.

Human and Material Resources

In the area of human resources, the year under review witnessed extensive reforms to policies and procedures relating to management of personnel. The directorate has set up an information and reference system, encompassing the management of human resources for the whole enterprise, including the services of a team of experts in this field, placed at the disposal of the Société's managerial staff.

Supported by a study of conditions prevalent in competitive markets, there was a re-assessment of the Société's non-unionized positions.

Lastly, in its efforts to elaborate a policy of improved health and safety standards in the workplace, management proceeded to hire a physician on a part-time basis.

In the realm of physical resources, management has purchased equipment and materials totalling nearly 40 million dollars, 90% of which has come from Québec suppliers.

This directorate has also co-ordinated the complete outfitting of the Société's Head Office, its Montreal West and East operation centres, as well as overseeing the expansion of its Montreal South operation centre.

Lastly, it has instituted a program of preventive maintenance and control of technical equipment and has set up a program of emergency measures for the Head Office.

Highlights

Personnel

As at March 31, 1985, the 701 staff positions of Loto-Québec were categorized as follows:

Management: 69
Professionals: 192
Administrative agents: 26
Technicians: 81
Office staff: 247
Representatives: 75
Labourers: 11

The Société also counts on 81 independent wholesalers for the distribution of its products in rural and semi-rural regions throughout Québec.

The majority of employees are affiliated with either "le Syndicat des travailleurs et travailleuses de Loto-Québec" (CSN) or with "l'Association des professionnels de Loto-Québec".

During the year under review, the total aggregate disbursement of stipends, salaries, payments and social benefits to employees and wholesalers reached $28,511,000, as compared with $26,526,000 for 1983-84.

Retailers

The Société entrusts the retailing of its products to holders of commercial trade permits.

Some 12,640 merchants throughout Québec comprise the retail sales network of Loto-Québec.

The composition of the network, according to category of business and region, is outlined below:

Tobacco and convenience stores	36%	Laval	2,254
Food stores	30%	Montréal-ouest	1,588
Financial institutions	9%	Québec	1,845
Other service outlets	10%	Trois-Rivières	994
Travelling sales persons	6%	Sherbrooke	1,193
		Chicoutimi	732
		Rimouski	593
Other commercial outlets	3.5%	Montréal-est	1,734
		Montréal-sud	1,435
Pharmacies	4%	Lotomatique	273
Kiosks	1.5%		

During the year under review, discounts accorded to retailers reached $40,973,000, as compared to $37,518,000 for the preceding fiscal year, an increase of 9.2%.

The authorized discounts are of 10% on Mini Loto sales and 5% on the sale of all other products. Retailers also receive bonuses equivalent to 1% of all prizes of $1,000. or more. In 1984-85, Loto-Québec paid out $1,294,977. retailers in this capacity, including a record bonus award of $54,861., bringing the total of authorized bonuses and discounts to $42,267,977.

Comparative results for the past five years

The consolidated results figures for the past five years attest, better than any words can, to the continuing growth of the Société and to the considerable sums it has collected and turned over to the government, to the benefit of all Quebecers.

	1985 (000$)	1984 (000$)	1983 (000$)	1982 (000$)	1981 (000$)
SALES — Lottery tickets	741,102	662,177	541,411	479,652	436,466
COST OF SALES					
Prizes paid	342,086	304,682	252,592	224,991	204,302
Discounts to retailers	40,973	37,518	31,207	27,950	25,695
Printing of tickets	17,454	17,306	16,961	17,526	13,944
	400,513	359,506	300,760	270,467	243,941
GROSS INCOME	340,589	302,671	240,651	209,185	192,525
OPERATION COSTS					
Advertising and Communication	16,079	15,020	15,260	13,180	12,533
Distribution and sales	16,759	16,867	16,117	13,783	11,351
Data processing	19,954	16,635	22,262	11,812	9,567
Administration	18,884	14,327	11,113	9,426	8,222
Depreciation of fixed assets	8,256	8,313	5,818	4,664	4,052
	79,932	71,167	70,570	52,865	45,725
Income from interest — net	2,131	1,276	2,576	2,438	1,298
	77,801	69,891	67,994	50,427	44,427
INCOME BEFORE THE FOLLOWING ITEMS	262,788	232,780	172,657	158,758	148,098
Payments to the Government of Canada further to its withdrawal from the conduct of lotteries	9,468	9,217	8,965	7,657	6,746
Special commissions to non-profit organizations	401	443	277	170	224
	9,869	9,660	9,242	7,827	6,970
NET INCOME	252,919	223,120	163,415	150,931	141,128

SSSASSS
Provincial
March 29, 1985
INTER
loto-québec
3
4
1er Prix
MISEZ TÔT!
6/36
LOTTO 649
Cagnotte 6/6
1 MILLION
ou plus
NUL029-00
NUL381-43
loto sports
loto hockey
BASEBALL
NUL014-019
Super Lo
1 Million

The Loto-Québec Collection

The Loto-Québec Collection of original engravings is comprised of works by Québec artist-engravers and is published in limited edition art books.

With each passing year, the Loto-Québec Collection is enriched by original works whose inspiration is the folkloric heritage of quebecois or amerindian tales and legends.

The vividly colourful illustration adorning the front cover of the report, and offered here as an insert, is one of this year's award winners.

Art books from the Loto-Québec Collection are distributed to distinguished persons, or at special events, and thus help to make artists, their work and the heritage of tales and legends of Québec better known within the Province and beyond.

The Sorcerers of Île d'Orléans, a legend of Québec.

The original engraving, now part of the Loto-Québec Collection, is presented in art-book form, bearing the Seal of the Société and bound in a linen cover.

- Collection Director: *Michel Labrosse*, Longueuil;
- Technical Coordinator: *Louis Pelletier*, St. Lambert;
- Concept, execution and silk-screen printing of the engraving: *Roland Giguère*, Montreal;
- Text: Excerpt from the Commemorative Program, St. Jean 1929, published by Dow Breweries, Ltd. *E.Z. Massicotte;*
- English adaptation: *Jerry Williams*, Montréal;
- Fine paper and linen-bound cover for original engraving, by *Pierre Ouvrard*, St. Paul de l'Île-aux-Noix;
- The art book has a limited edition of 81. All prints are signed by the artist.

On peut se procurer la version française de ce rapport annuel en s'adressant au:
Directorat des affaires publiques
Loto-Québec
500, rue Sherbrooke Ouest
Montréal, (Québec)
H3A 3G6

The Wizards of Île d'Orléans

In olden days, the wizards arranged to meet at night on Île d'Orléans, which rises from the river a few leagues from Québec, and there conducted midnight revels of all the demons.

Every night, wandering through the dark, one could see points of light which tumbled over and over and fantastic shadows silhouetted against the horizon. A great demon having only one eye, wearing a three-cornered hat surmounted by an enormous plume, beating the pace on a cook-pot as big as a sugaring cauldron, led a legion of grimacing dwarfs to follow it, leaping, dancing in a mad rhythm; it was the dance of the wizards, and the satanic band took only a minute to complete a circuit of the island. Nevertheless, this hellish pace did not prevent the imps from singing, and their dance remains unforgettable.

This Ile d'Orléans is our land
Where children are fair and grand.
Come all the survivors band
Wizards, lizards, serpents, toads on hand
Tura-lie, Tura-lie Dance around on high!

In short, the terrifying dances took place every night. One might have said at times that the dancers were laden with chains, and that they swung them about, striking one against the other, creating a deafening din. All that blazed like the chimneys of hell and all of the demons spewed out of it. Terrified by the spectacle, the inhabitants of the isle locked themselves in their homes, never daring to venture out after twilight, their hearts filled with dread by the strange phenomenon.

SOCIETE DES LOTERIES
ET COURSES DU QUEBEC

PUBLIC AFFAIRS DIRECTORATE
Michel Labrosse

DESIGN AND GRAPHICS
Creations Graphielle
Vercheres

TYPOGRAPHY
Atelier de photocomposition
Moderne A L Inc
Laval

COLOR SEPARATION
Adco Litho Inc
Montreal

PAPERS
Papiers fins Domtar Ltee
Beauharnois

PRINTING
Imprimerie Jacques-Cartier Inc
Montreal

Printed June 1985

Legal Deposit
Bibliotheque Nationale
du Quebec